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# Active strategies for older workers in the European Union A comparative analysis of recent experiences

## Introduction

The issue of the ageing workforce and its implications for social security spending and labour force availability has generated growing interest on the part of academics as well as decision-makers in the European Union. Whether the main interest centres on the question of inadequate future labour supply or on the increase in pension spending depends, as we will see, on the prevailing labour market situation in the different countries. Although the impact of the ageing workforce on pension spending is an important issue, the main focus of this chapter will be on the labour market implications and decision-makers' reactions to these at the current stage.

Estimates show that the size of the working-age population will decrease by some 20 per cent from 2000 to 2050 in the European Union (Economic Policy Committee 2001). Moreover, the proportion of workers aged between 50 and 65 years will increase by nearly 3 percentage points on average, within a range of between 5 percentage points in France and 0.3 percentage points in Sweden. Hence we are due to observe two movements that will restrict the entry pool of young workers. In addition to these two phenomena one should add the sharp decline in the average retirement age that has been observed over the past 40 years. In average men in the European Union today retire four years earlier than in 1950.

This decline in labour force participation among workers aged 50 and over (see statistical annexe) is one of the major features of changes on the labour market over the past decades. Although the extent of the decline varies somewhat across the nine countries analysed in this book, with Sweden showing the smallest variation and Belgium the largest, a shared feature is that this decline has been generated via early exit schemes. The shape, extent and generosity of the early exit schemes vary somewhat across countries.

The various early exit schemes include special conditions for older unemployed, early retirement pensions and disability pensions (in some cases considered a socially acceptable way of decreasing the labour supply of older workers by governments as well as social partners through the 70s and 80s). Offering incentives to older workers to withdraw from the labour market before the official retirement age was considered an effective contribution to solving the unemployment crisis in most European Union Member States. Firstly, it was deemed less stigmatising for an employee to take early retirement than to be unemployed and secondly employers could shed less productive and more expensive workers and hire younger less expensive ones.

Unfortunately this strategy turned out to be less successful than expected. First of all, the reduction in the labour supply of older workers did not make more room for the younger ones. Secondly, this solution has proved extremely costly for the state as it is highly popular among older workers and some companies assimilate the various early exit schemes as instruments of human resource management. Hence with the steadily growing share of older workers in the working-age population and the estimated decrease in the working-age population, social partners as well as governments have come to understand that action needs to be taken to raise the average effective retirement age. The following chapter will summarise the findings from the nine national reports in this book and seek to draw conclusions as to how much and what type of effort has been put into raising the average effective retirement age.

The chapter is structured as follows. In Section 1 we will briefly summarise the unusual features of the labour market in the nine analysed countries; Section 2 will emphasise the main public policies geared towards older workers. The latest actions and the current state of the reforms are summarised in Section 3, while Section 4 will highlight the various policy proposals put forward by the contributing authors, linking these to the current situation in the respective countries. The policy implications on a European level can also be found in Section 4.

## 1. Unusual features of the labour market with regard to older workers

As already mentioned, participation as well as employment rates of workers aged 50 and above are lower than the average rates for the working-age population as a whole (see statistical annexe). The decline started at different periods in the analysed member states, with the UK being one of the countries to experience it at a quite early stage. The contributing authors seem to agree on the reasons for this decline. Firstly, older workers appear to be found in declining industries in all the Member States; secondly, once older workers are made redundant, they tend to remain out of work; thirdly, firms can easily negotiate early retirement for those close to the official retirement age. Alan Walker argues that the decline in the employment rate for older workers is demand-driven in the UK, and this is generally also the case for the other Member States analysed in this book. The average employment rate of male workers aged 55-59 in the EU-15 lies just above 60 per cent, which is about 20 per cent below the average rate for male workers aged 25-65, and that of male workers aged 60-64 is around 30 per cent. Sweden distinguishes itself with an average employment rate of 80 per cent among male workers aged 55-59, which is quite close to the rate for male workers aged 25-64, and a rate for 60-64 year olds of close to 50 per cent. At the other end of the scale we find Belgium and Italy with approximately 50 per cent for 55-59 year-olds and 20-25 per cent for 60-64 year-olds. It is to be expected that in countries with tight labour markets such as the Netherlands, Denmark and the UK the employment rate for older workers would have picked up in later years. However, this does not seem to be the case for men in the UK, contrary to the situation in Denmark and the Netherlands where the employment rates for male workers aged 55-60 years have risen significantly during the past four years. Moreover, in the latter country the employment rates for 60-65 year-olds have increased also. In Germany, France and Sweden, meanwhile, the employment rate is constant or decreasing, with the result that the favourable economic situation of recent years has not benefited this group of workers. For women the picture is somewhat different, as two forces drive the employment rate: the cohort effect of the increasing employment rate of women and the steadily decreasing average age of retirement. At the current stage the cohort effect of the increasing participation rate of women is dominating the trend, hence in the nine analysed countries the employment rate for women aged 50-59 has been increasing over the years. The trend for 60-65 year-olds is not consistent across the countries and this is mainly due to the fact that, in some countries, the retirement age is still 60 for women and in others it is 65 or moving in that direction. It should be added that rate of employment for older women is somewhat lower than for older men.

The fragile situation of older workers can also be illustrated by the unemployment rate, although this is not a good indicator simply because, as already mentioned, early exit schemes have substituted for the traditional unemployment situation and, secondly, because in certain countries, e.g. Belgium, older workers are excluded from the unemployment statistics. In general, the unemployment rate for older male workers is below the average rate for 25-64 year olds, although in Germany, Finland and Sweden this is not the case. In Belgium and Italy, on the contrary, older workers have a far lower unemployment rate than the 25-64 year-olds on average. Common to all nine countries is the fact that, once an older worker becomes unemployed, he/she is likely to stay much longer in unemployment than a younger or prime-age worker, e.g. in Germany 60 per cent of the long-term unemployed are above 45 years of age. The good economic situation of recent years seems to have benefited older workers less than prime-age workers. Especially worth mentioning is the actual rise in the unemployment rate of male 50-54 year-old workers in both Denmark and the UK and the 60-64 year-olds in Germany. In Finland the economic upturn has had no effect on older unemployed male workers. For women the picture is less uneven across the nine Member States. The unemployment rate is always higher for 25-64 year-olds than for older workers and, furthermore, the latter seem to have benefited less from the economic upturn.

Part-time employment is often encouraged as a way of keeping older workers on the labour market through gradual retirement schemes. Nevertheless, though such schemes exist in the majority of the analysed countries, they seem not to have encountered much success. Only in the Netherlands, the UK and Sweden do we observe a fairly high rate of part-time employment among older workers. While the explanation for this in the UK is financial need to supplement the pension, in Sweden the reason seems to be the success of the partial pension scheme launched in 1976 and closed for access in 2001. In the Netherlands the phenomenon is an outcome of collective agreements reducing the working week of older workers as well as of gradual retirement schemes. It should, however, also be mentioned that while the participation rates of older men in Sweden and in UK are close to that of the 25-64 year-olds, the participation rate of the former is very low in the Netherlands. In Belgium, Denmark, France, Finland and Germany, part-time retirement schemes also exist, though they have not encountered much success, primarily due to the competing financial incentives from the full-time retirement schemes.

In Italy and the UK there is a high rate of self-employment among older workers. However the high rates are not attributable to the same phenomenon. In Italy, older workers are often rehired in a self-employed capacity to perform certain tasks, while in the UK it appears that the higher rate is due not to a change in status, but rather to the fact that the self-employed tend to stay on the labour market instead of retiring. Another particular phenomenon worthy of mention is the high rate of undeclared work in Italy. The authors state that an estimated 4 million workers are not declared and that a quarter of these are pensioners. Pensioners are estimated to work for some three to five years after retirement.

Hence although the European Union Member States analysed in this book give a quite heterogeneous picture of the situation of older workers, certain trends stand out. Employment rates are going down for men, and although they have risen in recent years, it does not seem as if older workers are benefiting as much from the economic upturn as are younger and prime age workers. For women the image is quite different, as their employment rate is steadily rising. This is due, however, to a cohort effect. Similarly to men, older women are not benefiting as much from the economic situation as are younger workers. With regard to the unemployment rate, this is in general lower for older workers than for younger ones, mainly because of the existence of other available and financially more attractive early exit schemes. However, once an older worker becomes unemployed, he/she is more likely to remain out of work for a long time. The contributing authors all question the existence of an external labour market for older workers. Thus, the fragile situation of the older workers will clearly be affected once governments start to tighten the financial incentives to use the early exit schemes.

## 2. Policy issues

The challenge for policy-makers in the nine analysed countries is to delay the transition into retirement of male and female workers. As the above section has shown, the initial situation is different across countries. In Sweden, policy-makers are worried not so much about the level of the participation rate of older workers as about its downward trend. In Belgium it is both the downward trend and the very low participation rate that concerns them. In Italy, where youth unemployment is a serious problem, policy-makers seem very worried about pension spending but less concerned about the labour market participation of older workers. These differences in labour markets and in policy-makers' priorities are reflected in the latest policy issues handled in the Member States.

The main policy issues in eight of the nine countries analysed are concerned with the financial incentives generated by the social security system. This was to be expected, as several studies have demonstrated the strong correlation between the incentives created by the generous early retirement provisions and the decline in the participation rate among older male workers (see the contributions in this volume for references). Gruber and Wise (1999) summarise the findings on the actuarial unfairness of early retirement provisions. They demonstrate that in most of the Member States, social security wealth accrual rate[1] actually decreases when retirement is postponed past the early retirement age, thereby imposing an implicit tax rate on work. However, as the contributing authors have stressed, doing away with financial incentives to retire early is not enough; policy-makers also need to address the question of creating an external labour market for older workers.

The UK stands out from the other eight countries in that no special public social security schemes are foreseen in order for older workers to exit the labour market before the official retirement age. It is the firms themselves that set up early retirement schemes for their employees. However, Alan Walker points out that the public social security schemes foresee neither gradual retirement nor early retirement, and workers are further prevented from flexible retirement insofar as the Inland Revenue acknowledges only full retirement. It should also be mentioned that the UK, together with the Netherlands, has a very high rate of people taking up disability pension. This probably reflects the lack of other alternatives to leaving the labour market before the official retirement age and the communicating vessels of social protection schemes. Policy issues in the UK have been very little focused on incentives from the social security schemes and more focused on changing attitudes of employers and employees and in particular on preventing ageism. Several awareness campaigns have been held since 1993 but do not seem to have been successful in educating employers to realise the value of recruiting and retraining older people. Meanwhile, there is no legislation on ageism in the UK although, with the victory of the Labour party in 2000, things are starting to change.

As in the other Scandinavian countries, social policies in Sweden are implemented according to the work principle, meaning that work should be favoured over cash support for those below retirement age.

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[1] Social security wealth accrual is defined as the difference in the present discounted value of social security benefits in year a and the present discounted value of social security benefits in year a+1. The ratio of the accrual to net wage earnings if work is continued is an implicit tax on earnings if the accrual is negative and an implicit subsidy to net earnings if the accrual is positive.

This means that, unlike in other countries, active labour market programmes for the unemployed have always been open to older workers. The take-up rate of these programmes is very high and is probably one of the main reasons for the high participation rate of older workers. Another very important element was the partial pension scheme, launched in 1976, that met with quite significant take up rates. This scheme was, however, for political reasons, definitely closed for access in 2001. There exist also a part-time early old-age retirement scheme and part-time disability pension, neither of which have ever encountered great success[2]. Hence this combination of active labour market policy and attractive part-time pension has succeeded in maintaining Swedish workers on the labour market. However, Sweden has, like most other Member States, at a certain time opened its disability pension for older workers with labour market problems. This move was taken in the 70s, as was also the case in Denmark, the Netherlands and other countries. The scheme met with great 'success' and in 1997 the possibility of taking up a disability pension due to labour market problems was abolished. This mechanism was also tightened up in Denmark, and in the Netherlands in 1993. Sweden has also taken another move towards a more flexible retirement system. In 1998 the old-age retirement pension underwent a major reform. The pensionable age was made flexible, early retirement becoming possible from the age 61 with a permanent decrease in the pension benefit. The major change is however that the scheme has gone from being a defined benefit to a defined contribution system. It is partly a pay-as-you-go system and partly a premium reserve system, and the incentives to continue working have been substantially increased.

Denmark introduced a rather generous early retirement scheme in 1978 in order to make room on the labour market for the young unemployed. The scheme became quite popular, with around 100,000 beneficiaries at the outset, and this figure culminated in 1999 with 150,000 after rising steeply through the 90s. Another 'very early' retirement scheme, for workers aged 50 and over, was introduced in 1992. It allowed workers to stay on social security benefits for 25 years

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[2] For more details see Wadensjö in same publication

before actually retiring by entering the early retirement tunnel via unemployment benefits at the age of 43 years. In the mid-90s the economic climate picked up and policy-makers decided to reform the early retirement systems in order to make them less attractive. This was a very delicate operation, as early retirement had come to be regarded as a social right. The reform did away with the 'very early' retirement scheme and tightened the conditions for eligibility for early retirement benefit. The financial incentives were not dramatically changed, but it was made more attractive to postpone early retirement. The part-time retirement scheme was incorporated into the full-time scheme; there is still very little incentive to join the part-time scheme, especially for low-income earners. However the Danish contribution also reports that there is evidence that the number of 'marginalised' people among the 50-59 year-olds has increased in recent years.

France is another country that has made extensive use of various early retirement schemes. They started to crop up, like in most other countries, during the 70s, and underwent reforms designed to curb their effects throughout the 90s. These full-time schemes were complemented by progressive retirement schemes in the late 80s and early 90s, which never encountered a great deal of success, for much the same reason as in Denmark, namely that there were simply no strong financial incentives to opt for progressive rather than full-time withdrawal. This is compounded by the fact that, under the progressive retirement schemes, the beneficiary continues to contribute to the pension scheme but does not benefit from continuing accrual of the retirement pension. The early retirement schemes, which are based on agreements between the firm and the ministry of labour, have been targeted and restricted throughout the 90s, although, to offset this restriction, a new fund for older unemployed has been set up within the unemployment benefit system. At the current stage 70 per cent of all inactive workers aged 55 and older are found to be benefiting from this fund. Large firms still tend to use early retirement as a way to cope with their deeply unbalanced age structure despite the curbing of the public schemes.

The Netherlands and Finland seem to be the two countries that have taken the most action towards reversing the trend of early retirement. As mentioned above, the participation rate of older made workers in the Netherlands is one of the lowest in the European Union, a fact attributable to the various schemes catering for early retirement. The Dutch contribution speaks of communicating vessels. Since the disability pension was more favourable than the early retirement benefit, the incentive to take up the former was greater and it actually served as a compulsory retirement scheme for less productive workers. This scheme was tightened up in 1993. Early retirement however remains the main means of phasing workers out during restructuring. In the mid-90s the attitude of the government towards the low activity rate of the older workers underwent a radical change, leading to a series of far-reaching reforms of the system. Unemployment and disability benefits were reduced, and thresholds were increased. Pensions were made more flexible, the pension base was changed from final pay to average pay and the reintegration of workers became the focus rather than providing benefits and guaranteeing a minimum standard of living. Since 1994 selective dismissal due to age has no longer been allowed. Before 1995 unemployed workers aged 45 and over were excluded from active labour market policies, but this approach was scrapped. The social partners also changed their attitude and in 1998 nearly half of the collective agreements replaced the early retirement schemes by flexible pension schemes. This was, however, the only policy foreseen for older workers. The Dutch contribution points out that the way to increasing the activity rate is still hampered by rigid seniority pay profiles and the final-pay pension system although a change is taking place. Other reforms that have taken place recently are the conversion of wage increases into early retirement or days off, the introduction of a part-time pension under several agreements, and, since December 2000, the right to training, albeit in the workers' own time. However, the image of older workers remains negative in employers' eyes, despite a campaign to change this image.

While the change in the Netherlands was driven mainly by worries about tight labour markets and to a considerable extent also by worries about social security spending, the German contribution asserts that the change in attitude of German policy makers was driven mostly by fears about high social security spending, and to a lesser extent by the fear of skill shortages. As in the above countries, most workers and employers consider early retirement schemes a 'cultural good' worth preserving. While employers call for the abolition of age-related labour costs, early retirement still plays a key role in human resource management. The government has taken several steps to curb the trend towards earlier retirement; this has been done by raising the age for eligibility from 63 to 65 years of age, and to raising the age for retirement on grounds of unemployment from 60 to 65. Early retirement is still possible at the age of 60-63, but at the cost of considerable financial loss. An 'Act of part-time in old age' has also been introduced, albeit without great success, as workers prefer to save for full-time retirement. These measures are accompanied by various active labour market policies aimed at older workers (wage subsidies, job-creation schemes, integration subsidies, structural adjustment measures).

Italy stands out from the above countries by the fact that the main drive for policy reform has been the high public spending on public pensions. Labour market considerations in relation to older workers do not seem to be a priority according to the Italian contribution, surprisingly perhaps, given the very low participation rate among those aged 55 and older. Two major public pension reforms took place during the 90s, the first in 1992 when the public pension system was on the verge of collapse and the retirement age was raised from 60 to 65 for men and 55 to 60 for women. The minimum number of years of contribution for eligibility was also raised, while the number of years giving entitlement to a seniority pension was raised from 35 to 40. In 1995 another major reform took place. This time the computing of the pension was changed from being based on the last 10 years of contribution to being contribution-based and dependant on the age at which the pension is taken up. Another feature was the introduction of a flexible retirement age between 57 and 65, the most financially beneficial age being 65. Provision for gradual retirement was also set up, with the possibility of working part-time between the age of 57 and 65 at the same time as receiving a partial pension, albeit with a replacement condition. As in most other Member States the partial pension has encountered little success, having been taken up by as few as 186 workers in the period 1996-1999. These reforms stabilised pension spending, although it still remains at a high level. Apart from the reform of the pension system, no other active strategies have been adopted, older workers not being priority.

The employment rate of older workers in Belgium is down with the Italian level, due to the large number of early exit schemes. Despite this very low employment rate, the Belgian government has only recently started to react. The public pension scheme has not undergone a major reform, apart from the fact that the retirement age for women has been raised from 60 to 65 years[3]. Furthermore, the various early exit schemes have not undergone any tightening in recent years. These two features mean that the Belgian way of handling the problem of an ageing population is quite distinct from the approach encountered in the other countries analysed.

At the opposite extreme from Belgium in terms of its approach to this problem is Finland. During the 90s more than ten different ways of leaving the labour market before statutory retirement age were offered. However, since the end of the 90s the Finnish social partners have taken several initiatives designed to retain older workers in employment. The Finnish contribution stresses both growing pension costs and tight labour markets in the future as being the driving forces behind this very comprehensive programme package. The Finnish approach has been to not only tighten up the social security provisions catering for early exit, but also to put forward several policies designed to retain the older workforce in employment. The author states that the strong commitment from the different labour market actors to implementation of this policy has been its strength. The aim was to block the push factors (bad health, working conditions, and changes in labour market conditions), so that when the social security incentives changed they would affect not only the employee but also the employer. Age discrimination was penalised, the age for entitlement to a part-time

[3] The retirement age for women is being raised progressively to attain 65 years in year 2009. In 2001 the pension age was 62 years.

pension decreased, the individual early retirement age increased, and a form of job alternation leave was introduced. There have been no large-scale legislative moves but several programmes have been put in place to alleviate the situation. On the employer side, the pension risk for employees above 50 years was pooled in order for the employer not to face the pension risk himself. Special attention was devoted to the promotion of work ability. The Finnish labour market is a very rigid one, as opposed to its Danish and Swedish counterparts, and thus it seemed of vital importance to allow older workers to regulate their own work with the help of breaks, work organisation, working methods and work speed. Another main issue is that of aiding the long-term unemployed to return to employment. A very intensive programme has been foreseen but the evidence to date does not indicate that participation in one of these programmes significantly changes the opportunities for the unemployed. The part-time pension, meanwhile, does appear to have had a positive effect. When the age for eligibility was decreased from 58 to 56 years the take-up rate rose significantly and, furthermore, at the same time the disability pension take-up rate has been decreasing. Finally a national programme for ageing workers in Finland has been set up, based on different aspects of life-long learning. The programme emphasises human capital as a key source for sustainable growth. It consists of tens of measures, which encompass broader information and training projects for different target groups. There are also other salient aspects concerning which we refer the interested reader to the Finnish contribution to this book.

The results of this comprehensive policy package are positive, for, not only has the employment level of older workers risen higher than its average at the end of the 90s, but the unemployment of ageing workers has also dropped since 1996. The average retirement age has increased, while the take-up rate of part-time pensions is rising.

The Finnish contribution concludes by stating that it is impossible to find a single trick that will bring success; instead, a range of activities, including information, education and training, research and legislation, are needed.

## 3. New initiatives and the current state of affairs

With the change in policy-makers' attitudes towards older workers, there has also been a change in the types of policies promoted. The European Employment Guidelines 2001 devoted a guideline exclusively to older workers, thereby 'upgrading' this category from being a vulnerable group to becoming 'worth' a guideline of their own.

In the UK, emphasis on active labour market policies came about in 1997 when the Labour party came to power, although none of the policies were directly targeted towards older workers. It was not until early 2000 that a special policy aimed at the over-50s was introduced. The New Deal 50 plus introduced an employment credit in order to guarantee a minimum income and, one year later, 35,000 people were benefiting from the scheme. In addition, since the re-election of the Labour government in 2001, several initiatives have been taken in response to the EU employment guidelines. There is now a strong emphasis on activation in general and these policy measures will be extended to older workers. Initiatives have been taken to introduce age discrimination legislation, extend the New Deal 50 plus policy and to examine how part-time work and occupational pensions can be combined in order to promote flexible phased retirement. There is an ambition to join different strands of policies on ageing and older workers in order to make a comprehensive efficient policy package.

The policy orientation is much the same in Sweden where a new programme, the 'Activity guarantee', assures a placement in various programmes for those unemployed for longer than two years. This has benefited the over-55s as a third of the participants are between the ages of 55 and 64. It might seem as if less efforts are being made in Sweden, but it should be kept in mind that the participation rate is close to that for the active population as a whole and that there has in general been a tradition to include older workers on the labour market rather than excluding them. It will, however, be interesting to see the evolution of the participation rate of the over-50s now that access to the part-time pension has been closed definitely. The government is also aiming at increasing the retirement age by abolishing mandatory retirement by collective agreement, which in most cases is at 65 years, so that the sole possible mandatory retirement age becomes 67 years.

The Danish contribution avers that although the 'stowaway' mentality of older workers is now changing, it is a mentality that has been around for quite some time and is hard to do away with, even despite the public initiatives taken since the mid-90s to change the attitude of employers and employees towards age. The 'Initiative Committee on Senior Policies' was established in 1997 and in 1998 consulting was given to firms, with a maximum of 5 hours, on how to design and develop senior policies. This experiment proved quite successful and has been prolonged. The same year a senior fund was established to support projects and activities promoting a stronger affiliation of older workers to the labour market. The main experience was that senior policies should not stand alone but should be an integral part of human resource policies. Enhancement of skills was found to be very important and, as in Sweden, special attention is now being paid to older long-term unemployed workers. Incentives, in the form of a tax credit, are also given to older workers who remain on the labour market.

Though it is acknowledged in France that the early withdrawal of workers from the labour market is an issue calling for attention, and, furthermore, that the public pension system is in need of reform, little is being done. The initiative to reform the pension system in 1995 led to a general strike in December of the same year and the government agreed to postpone all reforms till 2002. What then happened is that in 2000 a new early retirement scheme was established for employees who have had a tough working life, and the progressive retirement system, which is not encountering a great deal of success, is also to be given an overhaul in the near future. It is also planned to reinforce a specific 'individualised action plan – new start' aimed at helping the unemployed over-50s back into work.

In Germany part-time employment and 'time accounts' are seen as ways of modernising the workplace. New legislation to protect part-time workers against discrimination has recently been passed; the law also entitles full-time workers to move over to part-time work if they so wish. Another step in the same direction is the agreement concluded between the social partners in March 2001 upon a change of paradigm concerning older worker policies and which states that efforts should be made to increase life-long learning and work-time accounts.

The approach is quite different in Italy where policy-makers have barely begun to discuss the issue. The only initiative taken recently is the law of 2000 allowing the combination of pension and wage income. There are also talks about deregulation and even abolition of the official retirement age.

Almost the same may be said of Belgium, where it is only lately that policymakers have begun to give priority to older workers. In a general working-time policy move, the part-time career break option and the part-time early retirement scheme were merged into a general time-credit account that can be used for whatever purpose the individual wishes. The most important initiative though, is the special section on workers aged 45 and above included in the inter-occupational agreement for 2001-2002. This is the first time this much attention has been given to older workers and indicates that the social partners are becoming aware of the problems associated with the excessively low activity rates for this age group. Two main issues are to be dealt with. The first is to improve the working conditions of older workers (more training, part-time career endings); and the second is concentrated on improving the external labour market for older workers (social security reductions, efforts to recruit workers aged 45 and above). However, the agreement also states that existing early retirement schemes should continue for workers experiencing difficulties on the labour market. Another initiative on the agenda is compulsory outplacement services for older workers when they are made redundant.

The two countries that have already changed the policies favouring older workers in an attempt to increase the employment rate of older workers are Finland and the Netherlands. Finland was, as already mentioned, quite early in realising that policies must change and the steps taken in this direction are today seeing very positive results. Though no new initiatives have been adopted recently, the social partners and the government are pursuing the already agreed programmes in a steady manner.

In the Netherlands, meanwhile, there is still a strong focus on modifying the financial incentives to early withdrawal and at the same time on creating an external labour market. Some of the initiatives have already come into effect while others are still under discussion. The voluntary early retirement (VUT) schemes should be converted into flexible retirement schemes, and though the former should still be available it should be at the expense of the individual rather than as currently where individuals do not themselves bear the costs of the decision to retire early. There are plans to do away with tax support for the VUT by 1 July 2002. In addition to this step, since older workers taking a step down should not lose out on pension rights, there are plans to introduce the right to maintain the same pension rights when taking a step down. There are also plans to allow part-time work together with, and in addition to, full-time retirement. Another currently pending initiative is abolition of the rule that unemployed workers aged over 57.5 are exempt from seeking work. A final decision in this respect is dependent on the outcome of a research project on the external labour market possibilities for older workers. In order to handle the seniority wage link, the government has accepted tax instruments to bring down labour costs in order to make older workers more attractive for employers and, in addition, employees will be given a tax credit. Furthermore there are plans to give financial incentives to employers by granting social security contribution reductions for the long-term unemployed aged 50 and above, down from 57.5 years, earning up to 150 per cent of the minimum wage. The over-58s will be given a tax credit of 500 Dutch guilders and above-65s a credit of 1 500 Dutch guilders.

Hence, the above shows the broad priority given to older workers by Dutch policy-makers. However the government also stresses the need for the social partners to take their responsibilities and make use of these new financial incentives and combine them with age-conscious human resource policies.

As the above brief summary of the actions taken in the nine Member States has shown, active ageing for older workers is not given the same priority in all countries. This is attributable to many factors, the main considerations being tightness of labour markets and fears about sustainability of the social security systems. Basically four cluster of countries can be identified.

The Netherlands and Finland have come quite a long way in terms of creating a framework in which active ageing can be successfully developed. Both countries have seen the incentives to retire early decrease, alongside increased efforts to change perceptions of the capacities of older workers. The social partners have supported these efforts and this is emphasised as one of the reasons for the success in changing the ways in which the labour market capacities of older workers are perceived. The Dutch contribution does mention, however, that more attempts are needed to create the right incentives to gradually leave the labour market. However, the employment rates for the 55-59s and 60-64s have recently begun to rise, and the authors point out that it is difficult to disentangle the effects of policies to promote active ageing from those of economic growth. It remains the case that these two countries have experienced the highest employment growth for the 60-64s, indicating that the policies might have had an effect.

In countries like Denmark, Germany and Sweden, policy-makers have also taken action to curb the early retirement trend. The financial incentives to retire early have been seriously restricted, while steps have been taken to raise employers' and employees' awareness with regard to the ability of older workers. In Sweden less action has been taken in this latter regard simply because older workers have always been included in the labour market and therefore not in a position of having to prove themselves.

The UK is an outlier in terms of policies directed towards older workers as no action has been taken with regard to the social security system. Campaigns promoting older workers have been running since the mid-90s but seem to have had little impact. Recently several initiatives have been taken to make it more attractive for older workers to stay in employment.

The last cluster of countries is France, Belgium, and Italy. In all three countries the financial in incentives to withdraw early have been restricted, but not much has been done to re-integrate older workers into the labour force. In Belgium attitudes are starting to change, but action still remains to be taken. In France and Italy, older workers should also become a priority on the policy-makers' agenda.

## 4. Proposals for future action and concluding remarks

As the various contributions have shown, a tightening up of social security systems in order to decrease the financial incentives to retire early is a necessary but not sufficient step. The Danish contribution indicates that 50-59 year-olds may become increasingly marginalised as the rules are tightened. All contributions emphasise the need to create an external labour market for older workers if the employment rate is to increase. A holistic approach is called for, in order to encourage all the various dimensions that contribute to effective age management. The contributions all agree that age management cannot be left solely to employers or to public policies. It is the responsibility of all actors on the labour market, i.e. policy-makers, employers, trade unions and older workers themselves. As Alan Walker puts it: 'Public policy to establish the external context within which organisations may develop their own specific forms of age management'. Finland is put forward as a country which has set its sights on achieving this goal.

A majority of the contributing authors emphasise the need to change the financial incentives emanating from the social security system. The accrual rate in the retirement pension should be positive, especially above the early retirement age limit. Another important issue is the flexibility of the systems. Several contributions refer to the need to develop a flexible system that allows workers to take up their retirement pension in a flexible manner as in Sweden, where taking up a pension at an early age gives a permanent lower pension, and postponing the retirement age leads to a permanently higher pension. The French contribution also emphasises the need for a flexible retirement age, while calling for caution insofar as this makes the early retirement decision strictly individual and limits the action of the trade unions. To obviate the fear that firms might force individuals to retire early, it is argued that the legal option given to employers to retire their employees should be restricted by the setting of a minimum age for retirement that is not too low.

Another issue cropping up in a majority of the contributions is the need for part-time pensions. Such arrangements represent a way of preventing older workers from becoming overburdened and thereby encouraging them to remain longer in the labour market, while preventing the use of disability pensions. The Swedish contribution emphasises the need to bring back the part-time pension that in the past contributed to this country's higher rate of employment among older workers. The emphasis in several contributions is on a more attractive gradual retirement with financial incentives that at least match the full-time retirement option.

In the countries where a rule still exists preventing the combination of retirement pension and earned income, this rule should be abolished and final pay systems ought also to be modified in order to give incentives to demotion.

In general the authors call for a new approach to retirement. The English and Dutch contributions define the fourth pillar of retirement income as earned income. The idea is that the social security system should allow for the combination of taking up a retirement pension, whether part-time or full-time, and retaining a certain level of earnings.

However, whatever the nature of the reform undertaken, the entire social protection system needs to be taken into consideration as the various schemes (pension, disability, unemployment, sickness) function as communicating vessels.

On the employer side, age-conscious human resource policy is crucial to maintaining older workers in the labour market. If government policy changes are to be effective, then changes are needed with regard to wages, training and recruitment policies within firms themselves, and there is a need for active steps to combat ageism. Ageing is a gradual process and the impact varies from one individual to another, hence a custom-tailored approach is needed in order to prevent relative ageing.

Policies should not adopt an exclusively remedial approach focussed solely on the older workers in the firm, but should focus on the entire working life with the aim of neutralising the negative impact of ageing. However, a conflict might arise between the investment made by employers in training and adapting working conditions and demotion and external labour markets. Hence, part-time retirement may represent a means of extending the time left for the employer to recover these costs. On the other hand more incentives from the government, including financial ones, may be needed in order to assure training after a certain age. Firms might also have difficulties in implementing the changes needed to maintain the older workforce; accordingly, the Danish contribution proposes that specific consultancy services should be provided by the state and that pilot programmes should also be favoured. Remedial measures such as training should also be a part of the package.

The seniority-linked pay system needs to be re-thought as it is clearly an impediment to internal as well as external mobility. The social partners need to take up this discussion. One proposal put forward is to take away the age-linked wage costs and at the same time reduce the tax wedge for older workers (difference between wage cost and net wage) in order to create incentives for employers as well as employees.

Creating the external labour market is also high on the agenda of the contributors to this book. In countries like Finland, the UK and Germany the state has made available financial resources to promote research on the labour market conditions for older workers. In other countries there seems to be a need for more knowledge on the subject in order to better target the necessary interventions. Nevertheless, the contributions do put forward certain specific measures that would help recreate an external labour market for older workers. Job rotation schemes are advocated as a good way of putting older workers in direct contact with firms in order for both parties to engage in a more permanent relation. Temporary job agencies could also play a role in placing older workers in contact with employers and thereby enable them to demonstrate their capacities. More flexible jobs are needed, and ageism needs to be combated.

Special attention should also be paid to the growing number of older female workers. Especially governments must think of the implications with regard to caring for ill parents or grandchildren.

Having said all this, the authors also stress the need to keep socially acceptable early retirement schemes open for special groups of the workforce, such as those who began work at a very young age, who worked night shifts over long periods, etc.

But action need not come from national initiatives alone; it could equally well emerge from the European level. Two paths suggest themselves, one concerned with the technicalities of the policy package which has to be composed, and the other with broadening support for the policy changes needed. To take the issue of the policy package, it is evident that a combination of approaches will be required, working on both the demand side of the equation (the employment offered to older workers) and the supply side (the willingness of older workers to accept the work available). It is important to be aware that relying on one approach alone – e.g. addressing obstacles and disincentives to older workers' employment in the tax and social security systems – is insufficient. Actions to increase the willingness of employers to recruit and retain older workers, and to make working life better suited to older workers, are also needed.

In fact, in one sense, this issue is largely addressed already at European level, in that the employment guidelines urge member states to adopt a comprehensive approach to active ageing, 'with the aim of enhancing the capacity of, and incentives for, older workers to stay longer at work, in particular by:

- adopting positive measures to maintain working capacity and skills of older workers, not least in a knowledge-based labour market, in particular through sufficient access to education and training, to introduce flexible working arrangements including, for example, part-time work if workers so choose, and to raise employers' awareness of the potential of older workers; and

- reviewing tax and benefit systems in order to reduce disincentives and make it more attractive for older workers to continue participating in the labour market.'

Similarly, there is evidence that the policy is followed up at European level with a reasonable degree of seriousness. The draft recommendations to member states on their employment policies published in September 2001 included ten (out of fifty-seven) relating to increasing the employment rate of older workers. However, a closer examination is less encouraging: the recommendations are mainly concerned with the issues of incentives and disincentives in tax and social protection. Nor is this because this issue is a lacuna in an otherwise comprehensive approach taken by member states. While some member states certainly focus active labour market policies on older workers, evidence of measures to promote to employers the advantages of older workers are rarer, as are initiatives to adapt work to older workers (which depend also on social partner initiatives, and which admittedly may be less visible as they will be found at a decentralised level). Lifelong learning is much discussed, and is certainly stressed in the political debate at European level, but action is much more limited.

One might conclude that while the European Union has a formal policy of taking a broad approach to active ageing, the reality is that most attention focuses on reforming tax and social protection. This is worrying in itself, insofar as a broad approach seems far more likely to succeed, and it also compounds the second problem, that of broadening support for encouraging active ageing.

The essence of the problem here is to clarify the political message which policy-makers wish to convey. At the moment their main concerns seem to be, firstly, the future financing of social protection, and the resulting need to ensure that at a macro-level the ratio between input (work) and output (benefits) is altered to the detriment of either those contributing or those receiving benefits, or both. The second priority to emerge, though in a much less consistent way, is that older workers must remain active in the labour market because there are skill bottlenecks which must be filled.

To argue that Europe must promote active ageing in a more balanced way is not to deny the validity of these two concerns (nor to accept them unquestioningly). But missing from the message is any reference to increasing employment rates of older workers as socially desirable or as being in their own interests. Yet from a psycho-social point of view there is much to be said for a longer career. And the 'problem' of ageing populations should certainly be seen (and presented) in quite the contrary way – especially when the alternative is considered ! More seriously, a part of building on Europe's social achievements will lie in ensuring a civilised framework for people to live longer. There is a great potential for job creation here, and much of it can be met by the labour supply of older workers themselves, if we find the appropriate means of organising our economies and societies.

Surely the message that an active and worthwhile role in society is available to people well into what used to be considered old age is more attractive than to be told that working life must be extended because we cannot afford to pay for pensions. It is in finding a way to present this message that the European Union can make a further contribution to the successful development of active ageing.

## References

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